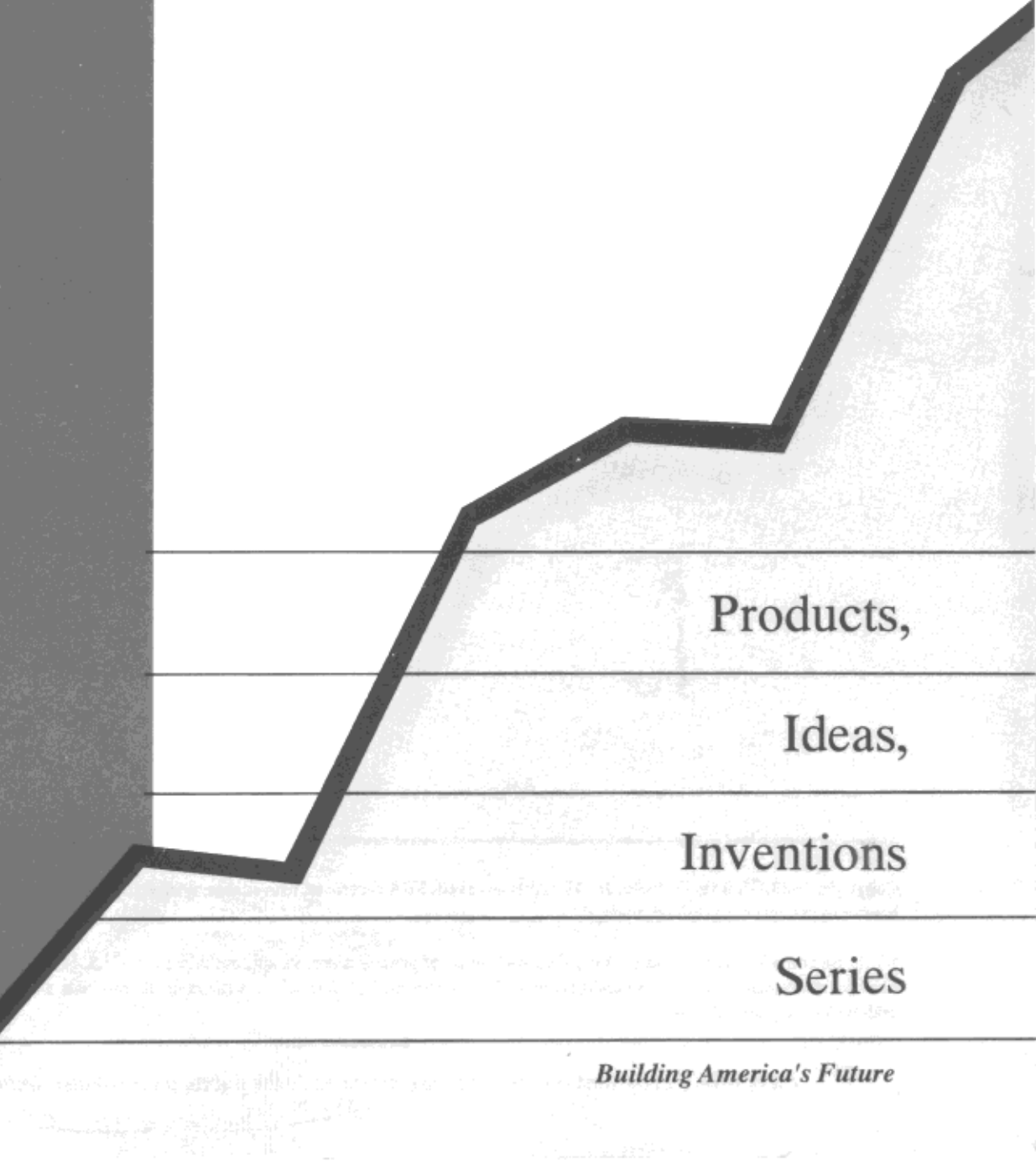


*T*rademarks and Business Good Will



Products,
Ideas,
Inventions
Series

Building America's Future

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TABLE OF CONTENTS

INTRODUCTION	1
WHAT TRADEMARKS ARE	1
WHAT TRADEMARKS ARE NOT	1
OBTAINING TRADEMARK RIGHTS	2
CHOOSING BETWEEN GOOD AND BAD TRADEMARKS	
Weak versus Strong Trademarks	2
Strong Trademarks	2
Weak Trademarks	3
AVOIDING THE TRADEMARKS OF OTHER FIRMS	
Legal Implications	3
Trademark Notice	3
Trademark Search	4
TRADEMARK REGISTRATION	
State Registers	4
Federal Registers	4
Deciding Whether to Register	5
THE NEED FOR EXPERIENCED COUNSEL	5
SUMMARY	5
APPENDIXES	
A. Further Information on Intellectual Property	7
B. Information Resources	9

INTRODUCTION

Trademarks and related laws are essential to preserving a business's hard-won goodwill. It is unfortunate that so few people understand what trademarks are and how to preserve legal rights in those business names—particularly in view of the large investments in goodwill that such names represent. No business is small enough that it can afford to ignore trademarks.

This publication will explain what trademarks are; how trademarks are automatically created if they have been properly chosen; how to choose between good and bad trademarks; how to avoid infringing on the rights of others and how to get the most protection for one's own commercial name and the goodwill associated with it.

A certification mark is the "stamp of approval" issued by an association to individual members whose products or services conform to association standards. The associations neither manufacture nor sell goods or services. Many certification marks have accompanying designs. Two examples of certification marks are Your Independent Insurance Agent and Certified Indian River Fruit. A collective mark indicates membership in an association. Many collective marks have accompanying designs. Examples include Rotary International, Realtors, and the Classic Car Club of America.

WHAT TRADEMARKS ARE

Their Function

"Brand name" is a synonym for "trademark." Trademarks distinguish one firm's cornflakes or four-wheel-drive station wagons from another's. Without them, consumers could not buy products they like or avoid those they don't like.

Their Form

Trademarks may be words, logos or other symbols. They may even be sounds, three-dimensional symbols (such as the well-known McDonald's golden arches) or colors.

Types of Marks

In addition to trademarks, there are service, collective and certification marks. A service mark (SM) is a symbol

identifying a service offered to the public, as by an airline or insurance company.

Technically, the word "trademark" means a symbol used to denote a particular source of goods, rather than services. For purposes of this discussion, trademark (or simply "mark") will mean any symbol that can be legally used only by a specific firm or related group of firms.

A Firm's Most Enduring Asset

A good trademark does not wear out or expire with the passage of time. On the contrary, it becomes more valuable as goodwill is developed. Trademarks are often the most important asset of an established business. Can you imagine what would happen if the company that owns the name Pepsi had to stop using it? Businesses that are starting out cannot afford not to make the most of trademarks.

WHAT TRADEMARKS ARE NOT

Trademarks are not copyrights or patents. They cannot be used to prevent one firm from copying the goods or services of another, nor from selling its goods or services under a common descriptive (or generic) name. For example, "Aspirin" originally was a trademark of the Bayer Company for a white compound of acetylsalicylic acid. Although Bayer still markets Bayer Aspirin and is

solely entitled to use the word "Bayer," the word "aspirin" has become generic and is used by many other companies for variations of what was originally Bayer Aspirin. Similarly, "telephone" originally was a trademark. It is now a generic term used by many companies for instruments that directly modulate voice signals, enabling them to be carried to remote locations.

The terms "cellophane" and "shredded wheat" are other examples. And the owners of marks such as "Xerox" and "Kleenex" spend thousands of dollars annually to prevent their marks from becoming generic, even though other words meet the need for a generic term, i.e., "photocopy" and "tissue."

If a firm has a substantial investment in original research or development of a new product or service, it should consider patent, copyright or similar protection. However, there will come a day when patents expire or trade secrets become common knowledge in the industry. At that time, other firms will be free to use the technology and to sell it under the name by which it is known to consumers.

OBTAINING TRADEMARK RIGHTS

No legal formalities precede the creation of a trademark; use in the marketplace is all that is required. As soon as consumers perceive a name associated with a product or service as indicating its source, that name is entitled to legal protection as a trademark. In fact, consumers may even create a trademark where none existed or create a second trademark by using a nickname as a source indicator. In this way, "Coke" was legally protected even before it had ever been used by the company!

Thus, a firm that has created a truly new item should create two names for it—one to serve as its common or generic name and the other to serve as a trademark. For example, if a company has invented and patented something it decides to call a "gizmo," and sells it under the brand name of "Widget," the company's goodwill will be retained with the name Widget when, sooner or later, other firms have the right to sell gizmos. Failure to plan for the future in this way has resulted in once valuable marks, such as cellophane and shredded wheat, becoming simply common English terms.

Notwithstanding the ease with which trademark rights are acquired, firms should exercise as much care in their choice of marks as they would in their choice of product design, location or key personnel. Assuming a firm has basic marketing skills and provides fair value for consumer dollars, an effective trademark will enable purchasers to consistently choose one product over its competitors.

CHOOSING BETWEEN GOOD AND BAD TRADEMARKS

Weak versus Strong Trademarks

There are strong and weak trademarks. Firms should avoid using the first name that is presented—at least without taking a hard look at its potential strength in the marketplace. There is no magic formula for picking a strong name, but you might take a few minutes to write down some trademarks you think most highly of and that give you a clear picture of a particular producer. Do they have anything in common? Consider the following classes of marks.

Strong Trademarks

Unique Marks

One should consider making up a new word or other symbol. These ultimately make the strongest trademarks. Among the weakest marks are those that are the same as

(or very similar to) trademarks being used by several unrelated businesses. How many sinus medicines begin with the prefix "sinu"? How many companies in your local area use a name such as "Keystone" or "Empire"? How many use the words "national," "general" or "American"? Can you keep them straight?

Arbitrary or Fanciful Marks

Terms that have no connection whatsoever to the goods or services to which they are applied also make relatively strong marks. Consider, for example, "Mustang" automobile. Of course, a firm adopting such a mark cannot prevent others from using the word in its ordinary sense.

Suggestive Marks

If a word conjures up a favorable impression about the characteristics of the product or service, it will be helpful.

Consider “hotdog” for a sports item—a particularly skillful user may be called a “hotdogger.” Or consider “jackrabbit.” If you want to suggest speed, jackrabbit is not a bad choice, but keep in mind that there may be negative connotations in your choice of mark; in some parts of the country, jackrabbits are a terrible nuisance. General Motors is alleged to have suffered from naming its car Nova; *no va* means “won’t go” in Spanish.

Weak Trademarks

Descriptive Terms

Generic terms such as “car” or “TV repair” are useless as marks when applied to those goods or services. Needless to say, if one firm could acquire exclusive rights to use these and other descriptive terms for a product, other firms would be kept out of the marketplace; obviously this is not permitted.

Deliberate misspellings, such as “Kleener,” afford no advantage over properly spelled words. Consider, for example, what happens if the product must be requested orally or if one wants to advertise it on radio.

Surnames and Geographic Names

There are well-known surname marks, but strong commercial rights to such marks are not easily obtained;

it may take years before consumers first think of the word as a mark rather than as the name of the owner of a business. Meanwhile, it will be difficult, if not impossible, to keep another person with that surname from using it, should that person happen to start selling the same goods or services.

The situation is similar with geographic names. Until the name of a location acquires a new meaning through use in association with a particular source of goods or services, it will be difficult to prevent others from using it for very similar goods or services and probably impossible to prevent others from using it to market dissimilar items.

Misdescriptive Terms

Consider, for example, “two-hour” as a service mark for a TV repair business. If it accurately describes the maximum repair time, it is a poor choice because it can be used by other businesses advertising two-hour service. If, on the other hand, it leads consumers to an unwarranted expectation of promptness, it is even worse. It is hard to imagine how a misdescriptive product or service name can ever be a device for retaining goodwill—unless it is so misdescriptive that it is fanciful, such as Hotdog brand skateboards.

AVOIDING THE TRADEMARKS OF OTHER FIRMS

Legal Implications

Marks that are the same as or very similar to those used by companies serving the same market are among the worst choices. Even if the other company’s mark is weak (in that it is a surname or a fairly descriptive term), using that mark or a close variation will not enable a firm’s customers to readily identify the product or service. As the owner of a firm selling a good product at a fair price, you will not want to share the not-so-good goodwill of businesses that may not treat consumers as well. Also, people who are well established in the market will not want to share their goodwill with latecomers. Trademark laws give them a vehicle for preventing that from occurring and for recovering the profits from people who flagrantly try to get a free ride.

Trademark Notice

Anyone can use the TM (or SM) symbol as shown in Figure 1, but, technically, a firm is not permitted to use the circled R symbol unless the mark is federally registered (as discussed below). The use of one of these trademark superscripts indicates that the user regards a word or other symbol as its trademark. A later entrant to that market should avoid any such mark or a similar variant. If the trademark is strong enough, the owner may even be able to prevent its use in quite dissimilar markets.

Figure 1 – Examples of Trademark Symbols

ABC[®] ? XYZ[™]

Trademark Search

A firm that fails to conduct a trademark search runs the risk that others will have preexisting rights that will, minimally, interfere with expansion plans. Also, a prior federal registrant can require a later user of its registered mark to stop using it altogether. In determining whether to search for other users of a certain mark before adopting it, one must decide whether it will cost more to (1) investigate prior users and registrants or (2) use advertising and other means to inform customers of a new name for the company's products or services if the company is prohibited from using the original name.

Avoiding trademark infringement requires more than avoiding marks of which one is aware. An illustration will be helpful in showing why this is true.

Imagine two businesses starting at about the same time, making the same or a similar product, but in different

locations. Imagine further that they choose the same or a similar mark. As long as no common group of consumers has to choose between them, there is no problem. However, unless one business fails or both stagnate, trouble is inevitable. When their territories begin to overlap, neither mark will have any value in the common market area. One of them will prevail, probably on the basis of first use in the contested market, and the other will be prevented from expanding into that territory. Neither company will be very happy about being restricted in its potential expansion.

One way to avoid this unhappy situation is to get a trademark search. For less than the cost of a title check on the average home, it is possible to learn whether a chosen mark is being used by others and, if so, on what. There is always an unavoidable risk, however, that the other firm has adopted it too recently or is using it in too small an area for its use to be discovered.

TRADEMARK REGISTRATION

The risk of having to share a mark can be further reduced by taking advantage of state and federal trademark registers. Although registration by one firm will not take away territory previously occupied by a second firm using the same or a similar mark, it may prevent the second firm from expanding into new markets.

Trademark registers cover certain areas. Most states have registers covering that state, and federal registers cover the entire United States and its territories and possessions.

State Registers

State registration is usually inexpensive and straightforward. If a mark is not already registered to another company and if it conforms to the rules set forth earlier, it should be quickly registered. Yet the advantages one receives from this process are somewhat questionable.

For one thing, personnel who work for state registers are unlikely to have the resources or feel the obligation to determine whether a mark is registered in adjacent states or federally. Also, state registration does not secure the entire state against later users in markets as yet unoccupied by the registrant. Finally, it is even possible that a later federal registrant will acquire all of the state other than the part that an earlier state registrant has already begun to occupy.

Federal Registers

There are two federal registers maintained by the U.S. Patent and Trademark Office: a principal and a supplemental register. The latter confers fewer rights but will accept marks, such as surnames, that have not as yet acquired consumer recognition as source indicators. The principal register, available for initially strong marks and those that have acquired consumer recognition through use in the marketplace, is more fully discussed below.

Federal Registration Requirements

Use of the Mark

Before one can obtain federal registration, preexisting rights must be established through use in the marketplace. At least with respect to goods, use means that the mark must appear on labels and not merely in advertising.

Although trademark laws were changed in 1989 to permit an application for registration to be filed without prior use, no registration can be granted until use has, in fact, occurred. Ordinarily, to preserve a filing date and any benefits one might have by virtue of being a prior applicant, use must follow within six months. In extraordinary cases, however, it is possible that this period may be extended for as long as three years.

Federal registration also requires interstate use. This means that the goods (or possibly customers coming to the source of goods or services) must cross state lines in one or more bona fide consumer transactions prior to registration. This may cause serious difficulty for businesses such as restaurants that are far from state lines—unless perhaps they are in a tourist area and can demonstrate a substantial out-of-state clientele.

Deciding Whether to Register

Federal registration in particular may seem somewhat expensive. However, it is the only way for a firm to ensure that, should it prosper, the entire country (aside from possible enclaves of prior use) will be available for potential expansion. In any case, failure to register may increase the need for a firm to keep an eye on federal registrations to avoid the possibility that a second firm will secure the mark for all geographical areas not actually occupied by the first firm.

THE NEED FOR EXPERIENCED COUNSEL

Any attorney admitted to practice in any state is technically qualified to register trademarks with the U.S. Patent and Trademark Office in Washington, D.C. No special examination is given to determine whether the

attorney is familiar with trademark law or registration procedures. However, clients are well advised to seek an attorney who specializes in such matters.

SUMMARY

Business owners work hard to build the consumer loyalty they need in order to prosper. Trademarks play a key role in this process by helping consumers identify firms that deserve repeat business. They are also important in critical word-of-mouth advertising. A business reputation is far too valuable to risk tying it to a mark that others are

free to use or, worse, to a mark for which others have exclusive rights. Strong marks should be chosen, searches should be made for other users, and, if possible, federal registration should be secured. If all those steps are taken, a firm has legal assurance that its customers can continue to identify it by the trademarks they have come to favor.



APPENDIX A: FURTHER INFORMATION ON INTELLECTUAL PROPERTY

Patent and Trademark Office, Washington, DC 20231, or the United States Trademark Association, 6 E. 45th Street, New York, NY 10017. Both publish free or inexpensive booklets.

A booklet for independent inventors, *So You Have An Idea*, is available from the Innovation Clinic, 2 White Street, Concord, NH 03301. To order it send \$2.00 and a self-addressed mailing label. The Innovation Clinic also has a set of HyperCard® stacks (for Macintosh computers) covering several topics of interest to inventors and small business owners. These are available for \$5.00 and a self-addressed mailing label.

Write to the Copyright Office, Washington, DC 20559, indicating the subject matter in which you are particularly interested, for example, music or arts.

Patents, Trademarks and Copyrights, Lawrence E. Evans, Jr., 1986, Gunn, Lee and Jackson, Eleven Greenway Plaza, Suite 1616, Houston, TX 77046.

You may want to consult one or more of the many inventors' handbooks available at public libraries. One example is *How to Profit From Your Ideas*, Flemming Bank, 1985 (\$12.95). Bank and Associates, P.O. Box 20365, Portland, OR 97220. This is a step-by-step guide that shows how you can make money by turning your creative ideas into marketable products.

U.S. Small Business Administration (SBA)

The SBA offers an extensive selection of information on most business management topics, from how to start a business to exporting your products.

This information is listed in *The Small Business Directory*. For a free copy write to: SBA Publications, P.O. Box 1000, Fort Worth, TX 76119.

SBA has offices throughout the country. Consult the U.S. Government section in your telephone directory for the office nearest you. SBA offers a number of programs and services, including training and educational programs, counseling services, financial programs and contract assistance. Ask about

- **Service Corps of Retired Executives (SCORE)**, a national organization sponsored by SBA of over 13,000 volunteer business executives who provide free counseling, workshops and seminars to prospective and existing small business people.
- **Small Business Development Centers (SBDCs)**, sponsored by the SBA in partnership with state and local governments, the educational community and the private sector. They provide assistance, counseling and training to prospective and existing business people.
- **Small Business Institutes (SBIs)**, organized through SBA on more than 500 college campuses nationwide. The institutes provide counseling by students and faculty to small business clients.

For more information about SBA business development programs and services call the SBA Small Business Answer Desk at 1-800-U-ASK-SBA (827-5722).

Other U.S. Government Resources

Many publications on business management and other related topics are available from the Government Printing Office (GPO). GPO bookstores are located in 24 major cities and are listed in the Yellow Pages under the "bookstore" heading. You can request a *Subject Bibliography* by writing to **Government Printing Office**, Superintendent of Documents, Washington, DC 20402-9328.

Many federal agencies offer publications of interest to small businesses. There is a nominal fee for some, but most are free. Below is a selected list of government agencies that provide publications and other services targeted to small businesses. To get their publications, contact the regional offices listed in the telephone directory or write to the addresses below:

Consumer Information Center (CIC)

P.O. Box 100
Pueblo, CO 81002

The CIC offers a consumer information catalog of federal publications. •

Consumer Product Safety Commission (CPSC)

Publications Request
Washington, DC 20207

The CPSC offers guidelines for product safety requirements.

U.S. Department of Agriculture (USDA)

12th Street and Independence Avenue, SW
Washington, DC 20250

The USDA offers publications on selling to the USDA. Publications and programs on entrepreneurship are also available through county extension offices nationwide.

U.S. Department of Commerce (DOC)

Office of Business Liaison

14th Street and Constitution Avenue, NW
Room 5898C

Washington, DC 20230

DOC's Business Assistance Center provides listings of business opportunities available in the federal government. This service also will refer businesses to different programs and services in the DOC and other federal agencies.

U.S. Department of Health and Human Services (HHS)

Public Health Service

Alcohol, Drug Abuse and Mental Health

Administration

5600 Fishers Lane
Rockville, MD 20857

Drug Free Workplace Helpline: 1-800-843-4971. Provides information on Employee Assistance Programs.

National Institute for Drug Abuse Hotline:

1-800-662-4357. Provides information on preventing substance abuse in the workplace.

The National Clearinghouse for Alcohol and Drug Information: 1-800-729-6686 toll-free. Provides pamphlets and resource materials on substance abuse.

U.S. Department of Labor (DOL)
Employment Standards Administration
200 Constitution Avenue, NW
Washington, DC 20210
The DOL offers publications on compliance with labor laws.

U.S. Department of Treasury
Internal Revenue Service (IRS)
P.O. Box 25866
Richmond, VA 23260
1-800-424-3676
The IRS offers information on tax requirements for small businesses.

U.S. Environmental Protection Agency (EPA)
Small Business Ombudsman
401 M Street, SW (A-149C)
Washington, DC 20460
1-800-368-5888 except DC and VA
703-557-1938 in DC and VA
The EPA offers more than 100 publications designed to help small businesses understand how they can comply with EPA regulations.

U.S. Food and Drug Administration (FDA)
FDA Center for Food Safety and Applied Nutrition
200 Charles Street, SW
Washington, DC 20402
The FDA offers information on packaging and labeling requirements for food and food-related products.

For More Information

A librarian can help you locate the specific information you need in reference books. Most libraries have a variety of directories, indexes and encyclopedias that cover many business topics. They also have other resources, such as

- **Trade association information**
Ask the librarian to show you a directory of trade associations. Associations provide a valuable network of resources to their members through publications and services such as newsletters, conferences and seminars.
- **Books**
Many guidebooks, textbooks and manuals on small business are published annually. To find the names of books not in your local library check *Books In Print*, a directory of books currently available from publishers.
- **Magazine and newspaper articles**
Business and professional magazines provide information that is more current than that found in books and textbooks. There are a number of indexes to help you find specific articles in periodicals.

In addition to books and magazines, many libraries offer free workshops, lend skill-building tapes and have catalogues and brochures describing continuing education opportunities.

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